

**DELAWARE HOUSING PARTNERSHIP, INC.  
DOVER, DELAWARE**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2007 AND 2006**

DELAWARE HOUSING PARTNERSHIP, INC.

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## INDEPENDENT AUDITORS' REPORT

September 21, 2007

Board of Directors  
Delaware Housing Partnership, Inc.  
Dover, Delaware

We have audited the accompanying statements of financial position of Delaware Housing Partnership, Inc. (a nonprofit organization) as of June 30, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware Housing Partnership, Inc. as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of Delaware Housing Partnership, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Barbacane Thornton & Company*  
BARBACANE, THORNTON & COMPANY

DELAWARE HOUSING PARTNERSHIP, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 4,917,756	\$ 5,700,210
Accounts receivable	-	13,355
Mortgages and accrued interest receivable (net of allowance of \$94,529 and \$56,222 for 2007 and 2006, respectively)	<u>3,820,272</u>	<u>2,620,288</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,738,028</u></b>	<b><u>\$ 8,333,853</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>LIABILITIES</u></b>		
Accounts payable	\$ 51,050	\$ 6,491
<b>TOTAL LIABILITIES</b>	<b><u>51,050</u></b>	<b><u>6,491</u></b>
<b><u>NET ASSETS</u></b>		
Unrestricted	<u>8,686,978</u>	<u>8,327,362</u>
<b>TOTAL NET ASSETS</b>	<b><u>8,686,978</u></b>	<b><u>8,327,362</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,738,028</u></b>	<b><u>\$ 8,333,853</u></b>

The accompanying notes are an integral part of these financial statements.

DELAWARE HOUSING PARTNERSHIP, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
Grants and contributions	\$ 20,000	\$ 20,500
Interest on investments	286,519	188,159
Interest on loans	<u>156,357</u>	<u>147,750</u>
TOTAL REVENUES	<u>462,876</u>	<u>356,409</u>
EXPENSES		
Professional fees	19,953	26,855
Bad debt expense	38,307	51,811
Management fees	<u>45,000</u>	<u>45,000</u>
TOTAL EXPENSES	<u>103,260</u>	<u>123,666</u>
CHANGE IN NET ASSETS	359,616	232,743
NET ASSETS, BEGINNING OF YEAR	<u>8,327,362</u>	<u>8,094,619</u>
NET ASSETS, END OF YEAR	<u>\$ 8,686,978</u>	<u>\$ 8,327,362</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE HOUSING PARTNERSHIP, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 359,616	\$ 232,743
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debt expense	38,307	51,811
Decrease (Increase) in accounts receivable	13,355	(9,140)
Decrease in interest receivable	12,921	109,925
Increase in accounts payable	44,559	589
Total Adjustments	<u>109,142</u>	<u>153,185</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>468,758</u>	<u>385,928</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgages made	(1,787,626)	(302,724)
Principal payments received	<u>536,414</u>	<u>821,847</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,251,212)</u>	<u>519,123</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(782,454)	905,051
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,700,210</u>	<u>4,795,159</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,917,756</u>	<u>\$ 5,700,210</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid during the year	\$ -	\$ -
Income taxes paid during the year	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE HOUSING PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A      ORGANIZATION

Delaware Housing Partnership, Inc. (DHP) was incorporated December 22, 1992 as a non-stock corporation under the laws of the State of Delaware. The purpose of the Corporation is to promote the public welfare of the citizens of the State of Delaware by promoting and furthering, in any way consistent with its public welfare purposes, the enhancement and development of decent, safe and sanitary housing for persons and families of low and moderate income. It is governed by a Board of Directors, three appointed by State and New Castle County officials, three representing business interests and three at large.

NOTE B      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Corporation are prepared on the accrual basis of accounting.

Financial Statement Presentation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations," the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, if applicable. In addition, the Corporation is required to present a statement of cash flows.

Income Tax Status

The Corporation qualifies as a tax-exempt Organization under Section 501(c)(3) of the Internal Revenue Code and its activities do not result in any income tax liability. The Corporation reports its activities to the Internal Revenue Service on Form 990 "Return of Organizations Exempt from Tax."

Mortgages Receivable

Delaware Housing Partnership, Inc. provides funds to modest income families under the Delaware Housing Partnership Second Mortgage Assistance Loan Program. The funds are used to help cover down payment and closing costs through a second mortgage. The principal and interest payments on the mortgages may be deferred until the first mortgage has been paid. Only designated homes specifically built for DHP are eligible. Interest accrues on the loans at a rate of six percent.

Mortgage receivables are valued at net realizable value. The allowance for uncollectible accounts is based on historical loss levels and an analysis of individual accounts. Mortgages are charged off against the allowance once the property is in foreclosure.

DELAWARE HOUSING PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Cash and Cash Equivalents

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and investments held by the Treasurer of the State of Delaware.

Investments are held for the Corporation by the Treasurer of the State of Delaware and are maintained in a common pool of funds for all participating state agencies and associated nonprofit associations. The pool is comprised of four categories of investments although a detailed accounting by category is not maintained for each depositor. Only the total invested for each depositor is made available on a periodic basis.

Delaware Housing Partnership's funds are maintained in the following four pools:

- (1) Cash Account  
Objective - Liquidity  
Maturity - Maximum maturity is one year.
- (2) Liquidity Account  
Objective - Maximum yield and maintain safety of principal  
Maturity - Maximum maturity is two years.
- (3) Reserve Cash (Intermediate) Account  
Objective - Maximum yield and maintain safety of principal  
Maturity - Maximum maturity is five years.
- (4) Endowment Accounts  
Objective - To provide a long-term funding source  
Maturity - Maximum maturity is 10 years.

The permissible types of investments for all of these pools are as follows:

- U.S. Government securities
- Government agency securities
- Certificates of deposit, time deposits and bankers acceptance
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities



DELAWARE HOUSING PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Expenses

The Corporation's by-laws call for the Delaware State Housing Authority (DSHA) to pay all administrative costs and perform all administrative functions of DHP except independent inspection services, audit and similar independent professional services.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C CASH

At June 30, 2007 and 2006, the Corporation's cash and investment balance held with the State Treasurer's Office amounted to \$4,917,756 and \$3,615,872, respectively. Cash and investments are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The funds held by the State of Delaware Investment pool, an internal investment pool, are specifically identified for the Corporation, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware.

At June 30, 2007, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$0 and the bank balance was \$0. At June 30, 2006, the reported amount of the Corporation's deposits not held with the State Treasurer's Office was \$2,084,338 and the bank balance was \$2,084,338. None of the balance was subject to custodial credit risk.

NOTE D RELATED PARTY TRANSACTIONS

Delaware Housing Partnership, Inc. is closely associated with, and related to, the Delaware State Housing Authority.

DELAWARE HOUSING PARTNERSHIP, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE D RELATED PARTY TRANSACTIONS (cont'd)

The Delaware State Housing Authority (the "Authority") was created in 1968 by an act of the General Assembly of the State of Delaware (the "State"). The Authority, which is a public corporation, was originally established as the Department of Housing. It was organized under the Department of Community Affairs in 1970 and under the Delaware Economic Development Office in 1987. The Authority was established in 1998 as an independent Authority in the Executive Department, reporting directly to the Governor of the State, institutionalizing the role of affordable housing as a key aspect of State policy.

The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

The staff of the Delaware State Housing Authority performs all management and accounting functions for Delaware Housing Partnership, Inc. The general ledger and financial statements of Delaware Housing Partnership, Inc. are maintained and prepared by the Delaware State Housing Authority, using a computer system that also performs these functions for other housing corporations. In 2007 and 2006 the Corporation paid the Delaware State Housing Authority a management fee of \$45,000.

**SUPPLEMENTAL INFORMATION**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

September 21, 2007

Board of Directors  
Delaware Housing Partnership, Inc.  
Dover, Delaware

We have audited the financial statements of Delaware Housing Partnership, Inc. (a nonprofit organization) as of and for the year ended June 30, 2007 and have issued our report thereon dated September 21, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delaware Housing Partnership, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Delaware Housing Partnership, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Delaware Housing Partnership, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Delaware Housing Partnership, Inc.'s ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Delaware Housing Partnership, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Delaware Housing Partnership, Inc.'s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Delaware Housing Partnership, Inc.'s internal control.

Board of Directors  
Delaware Housing Partnership, Inc.  
Dover, Delaware

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware Housing Partnership, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget and Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.

*Barbacane, Thornton & Company*  
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